

Message Text

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TO AMEMBASSY TEHRAN

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EXDIS

FOLLOWING REPEAT STATE 56529 ACTION JIDDA 21 MAR

QUOTE

S E C R E T STATE 056529

EXDIS

E.O. 11652: GDS

TAGS: ENRG, EFIN, SA

SUBJECT: SAUDI ARABIAN AID TO LDCS

REFERENCE: (A) JIDDA 1138; (B) STATE 040899

1. USG CONSIDERS IN FIRST INSTANCE THAT MOST DESIRABLE WAY BY WHICH SAUDIS COULD HELP LDCS IS BY LOWERING OIL PRICES.

2. THERE IS ALSO CONSIDERABLE SCOPE FOR SAUDIS TO EMPLOY THEIR LARGE AND NOW AUGMENTED CAPITAL WEALTH FOR LONG-RANGE DEVELOPMENT ASSISTANCE. USG WOULD REGARD A MAJOR CONTRIBUTION TO THE PENDING FOURTH REPLENISHMENT OF IDA AS THE MOST PREFERABLE OPTION. WE ARE WELL AWARE THAT SAUDIS

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HAVE IN PAST BEEN RELUCTANT TO MAKE LARGE CONTRIBUTIONS

TO INTERNATIONAL AGENCIES. HOWEVER, SUCH AN OFFER NOW TO IDA WOULD BE DRAMATIC, MAKE A VERY POSITIVE WORLDWIDE IMPACT, AND WOULD MEET SAUDI PROBLEM OF HAVING NO INSTITUTIONAL ARRANGEMENTS OR CAPABILITIES TO ADMINISTER AID PROGRAMS. IT WOULD ALSO STRENGTHEN THE ADMINISTRATION'S HAND IN OVERCOMING THE INITIAL DEFEAT BY THE HOUSE OF THE US CONTRIBUTION TO THIS IDA REPLENISHMENT.

3. SAUDI CONTRIBUTIONS TO THE SOFT LOAN WINDOWS OF THE REGIONAL DEVELOPMENT BANKS--ASIAN DEVELOPMENT FUND, INTER-AMERICAN DEVELOPMENT BANK FUND FOR SPECIAL OPERATIONS, AND AFRICAN DEVELOPMENT FUND--COULD ALSO MAKE A SIGNIFICANT DEVELOPMENTAL AS WELL AS POLITICAL IMPACT.

4. ANOTHER ALTERNATIVE, ALTHOUGH NOT A SUBSTITUTE FOR SOFT WINDOW CONTRIBUTIONS TO IDA OR REGIONAL DEVELOPMENT BANKS, WOULD BE A SIZEABLE CONTRIBUTION TO WORLD BANK OF CAPITAL, WHICH WOULD INCREASE SAUDI VOTING STRENGTH AND INFLUENCE IN THE BOARD OF DIRECTORS AND HENCE ON LENDING POLICIES AND PROGRAMS.

5. IN ADDITION TO THE ABOVE SUGGESTIONS, THE SAUDIS MIGHT WISH TO CONSIDER SOME SORT OF TRUST FUND ARRANGEMENT ADMINISTERED BY THE WORLD BANK AND/OR REGIONAL DEVELOPMENT BANKS, IN WHICH THE SAUDIS COULD HAVE A GREATER INFLUENCE IN SETTING TERMS AND CONDITIONS. THE US HAS DONE THIS IN THE PAST UNDER THE SOCIAL PROGRESS TRUST FUND IN THE IDB AND THE NEW VENEZUELAN PRESIDENT STATED IN HIS INAUGURAL ADDRESS THAT VENEZUELA WAS CONTEMPLATING A CONCESSIONAL LOAN "FIDUCIARY" FUND IN THE IDB. SUCH A TRUST FUND WOULD BE THE SAUDI EQUIVALENT OF THE CONCESSIONAL LENDING PROGRAMS OF THE DAC COUNTRIES, BUT DRAWING ON THE TECHNICAL AND ADMINISTRATIVE EXPERTISE OF THE ESTABLISHED DEVELOPMENT FINANCE INSTITUTIONS. SINCE IT WOULD BE CLEARLY IDENTIFIED WITH SAUDI ARABIA, SUCH A FUND

MIGHT APPEAL TO FAISAL'S PREFERENCE FOR USING AID AS A PERSONAL VEHICLE. WE WOULD EMPHASIZE, HOWEVER, THAT TO ACHIEVE MAXIMUM ECONOMIC IMPACT--AND LONG-RANGE POLITICAL STATUS FOR ITS DONOR--SUCH A FUND SHOULD BE ADMINISTERED ON A NONSECTARIAN BASIS ACCORDING TO OBJECTIVE ECONOMIC

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CRITERIA.

6. IN ADDITION TO THE MULTILATERAL ROUTE, HOWEVER, THE SAUDIS WILL CERTAINLY BE CONSIDERING BILATERAL AID. WE BELIEVE THERE ARE SERIOUS CONSTRAINTS TO THIS CHANNEL IN TERMS OF SAUDI INEXPERIENCE IN THE AID BUSINESS AND RELATED TECHNICAL AND ADMINISTRATIVE CONSIDERATIONS. WE WOULD REGARD BILATERAL AID AS BEING MOST CONSTRUCTIVE IF

DIRECTED TO THE HARDEST HIT LDCS, AND FEEL THAT THE
SAUDIS' TRADITIONAL FINANCIAL CONSERVATISM AND SECTARIAN
AND POLITICAL APPROACH TO FOREIGN AID WOULD, UNLESS
SIGNIFICANTLY MODIFIED, SERIOUSLY DETRACT FROM THE
UTILITY OF SUCH A BILATERAL AID PROGRAM. KISSINGER
UNQUOTE RUSH

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